


How Business Activities Change the Accounting Equation

Words To Know

- ▶ **Transaction**
 - ▶ **Account**
 - ▶ **Account Title**
 - ▶ **Account Balance**
 - ▶ **Capital**
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RECEIVING CASH

Transaction 1 August 1. Received cash from owner as an investment, \$10,000.00.

	Assets	=	Liabilities	+	Owner's Equity
	Cash	=			Barbara Treviño, Capital
Beginning Balances	\$0		\$0		\$0
Received cash from owner as an investment	+10,000				+10,000
New Balances	\$10,000		\$0		\$10,000

PAYING CASH

Transaction 2 August 3. Paid cash for supplies, \$1,577.00.

	Assets			=	Liabilities	+ Owner's Equity
	Cash	+ Supplies	Prepaid Insurance	=		Barbara Treviño, Capital
Balances	\$10,000	\$0	\$0		\$0	\$10,000
→ Paid cash for supplies	-1,577	+1,577				
Balances	\$8,423	\$1,577	\$0		\$0	\$10,000
→ Paid cash for insurance	-1,200		+1,200			
New Balances	\$7,223	\$1,577	\$1,200		\$0	\$10,000

Transaction 3 August 4. Paid cash for insurance, \$1,200.00.

TRANSACTIONS ON ACCOUNT

Transaction 4 August 7. Bought supplies on account from Ling Music Supplies, \$2,720.00.

	Assets			=	Liabilities + Owner's Equity	
	Cash	+ Supplies	+ Prepaid Insurance	=	Accts. Pay.— Ling Music Supplies	+ Barbara Treviño, Capital
Balances	\$7,223	\$1,577	\$1,200		\$0	\$10,000
→ Bought supplies on account		+2,720			+2,720	
New Balances	\$7,223	\$4,297	\$1,200		\$2,720	\$10,000
→ Paid cash on account	-1,360				-1,360	
New Balances	\$5,863	\$4,297	\$1,200		\$1,360	\$10,000

Transaction 5 August 11. Paid cash on account to Ling Music Supplies, \$1,360.00.